

ERRATA AND ADDITIONS TO EA-2B COURSE OUTLINE AND REVIEW QUESTIONS 2008 EDITION

The following is errata for this manual:

Page 11: The actuarial equivalent of the age 65 benefit payable at the postponed retirement age of 66 is determined using an actuarial increase of interest only provided there is no forfeiture of benefits. The following must be added to the data in the question:

Pre-retirement death benefit: Present value of accrued benefits

Page 23: The question should be asking for the largest values, not the smallest values.

Page 56: The first two sentences of the second to last bullet point have been modified for clarification:

A non-excludable employee is one not excluded under the terms of the plan for IRC section 410(a) statutory reasons (non-resident aliens or employees covered by a collective bargaining agreement are excludable). Terminated participants who work 500 or fewer hours are deemed to be excludable, unless they benefit for the year.

Page 65: The last sentence of the second to last bullet point on this page regarding employee contributions and the average benefit percentage is incorrect and should be changed as follows:

All employee after-tax contributions are not taken into account (IRS regulation 1.410(b)-5(d)(2)). Note that 401(k) salary deferrals are deemed to be employer contributions and are included in the average benefit percentage. However, catch-up employee deferrals for the current year under IRC section 414(v) are excluded from the average benefit percentage.

Page 68: In the note under the first main bullet point, the non-highly compensated employee concentration percentage does not require aggregation of all plans. The bullet point should be revised to read:

Note: for the average benefit percentage, **all** plans of the employer **must** be aggregated regardless of any other rules (other than the option noted at the top of page 66).

Page 72: In the solution to question 29, the ratio percentage calculated for Plan B only in the second to last paragraph is incorrect since the number of non-excludable HCEs was determined as 46 (not 48). The correct ratio percentage in the second to last paragraph is:

$$(10/330)/(46/46) = .0303, \text{ or } 3.03$$

Page 83: In the solution to question 36, the ratio percentage should be:

$$(330/460)/(40/45) = 80.71\%$$

Also, the following sentence should be added to the end of the first paragraph in the solution as a clarification:

Note the general condition of the exam stating that there is no “hours” requirement for accrual – the elapsed time method is assumed. If there was an “hours” requirement for accrual, then the 5 participants would be treated as excludable if they did not satisfy the “hours” requirement.

Page 100: It is unclear in the regulations whether, for general testing using a measurement period of the current year, the beginning of year accrued benefit should be determined using salary history only through the first day of the year. There has never been an exam question that has provided information in this manner, and although common practice seems to use compensation history only through the prior year for the beginning of year accrued benefit, it seems safest to modify this question by providing what is typically provided on exam questions – a single 3-year average without any salary history, so that where the salary came from is not an issue. The compensation information provided in the question should be replaced by the following (which will not change the numerical solution to the question, although there is now no need to be concerned with the discussion in the first paragraph in the solution dealing with averaging of compensation):

Compensation for 2008:

Annual compensation	\$240,000
3-year average compensation	176,667

The wrong notation was used for the life with 10 years certain annuity. This annuity is not represented by “ $\ddot{a}_{65:\overline{10}|}^{(12)}$ ”. It should actually read “ $\ddot{a}_{\overline{10}|}^{(12)} + {}_{10|}\ddot{a}_{65}^{(12)}$ ”.

The same is true in the solution to the question on page 101.

Page 105: In the first equation, the 2 in the denominator just before the 38,000 should be $\frac{1}{2}$. So, the equation should actually read:

$$(60,000/12 \text{ years}) \div (150,000 - \frac{1}{2}(38,000)) = .0382$$

Page 109: In the last paragraph, the second reference to HCE1 should actually be HCE2. So, the first sentence in that paragraph should read:

To summarize, banding allows HCE1 and NHCE2 to be a part of the rate group in addition to HCE2 and NHCE3.

Also, note that adding and subtracting $1/20^{\text{th}}$ of a percentage point from the midpoint of 0.9% will work as well for grouping the normal accrual rate, and will give the same result.

Page 110: The date of hire for Smith in question 45 should be 1/1/1991, not 1/1/1990.

Page 119: The last line sentence was left out of the solution to question 49:

Since the actual ratio percentage and the minimum needed for the rate group to pass the general test are each 20.59%, the difference is 0%.

Page 121: Another bullet should be added under the general test that reads:

A measurement period of the current and past years (annual allocation equal to total account balance as of end of current year – including all earnings allocated during the measurement period – divided by years of plan participation) can be used, but only when cross testing on a benefits basis.

Page 128: The third bullet point under “Defined benefit plans” should be removed (the one that states “the measurement period must be the current year”) since it is an incorrect statement.

Page 131: The equivalent benefit accrual rate in the solution to question 53 is 4.34% (not 4.38%).

Page 139: The question should ask about the minimum aggregate allocation gateway requirement (not the minimum allocation gateway).

Page 157: The first percentage in the examples of equivalent benefit formulas in the middle of the page should be 1.00% (not 1.75%).

Page 162: The word “excess” should be inserted before the word “benefit” at the end of the 5th line from the bottom of the page.

Page 233: The date of hire for Smith in question 95 should be 1/1/2000, not 1/1/1999.

Page 245: The last two bullet points on this page make more sense if they are moved to become the first two bullet points under employer reversions on page 262. Note that the reallocation of assets to participants with priority category 2 benefits does not satisfy the condition that allows the excise tax be reduced because at least 20% of the excess assets are reallocated to participants. When there is to be an employer reversion, a portion of the excess assets must be reallocated to participants with category 2 benefits before the reversion tax percentage is considered under IRC section 4980. Any decrease in the reversion excise tax from 50% to 20% is allowed only if one of the two conditions on page 262 is satisfied **after** the assets allocated to the participants with category 2 benefits is done.

The following bullet point should be added to the end of the page:

For retirees receiving benefits under a COLA, the total accrued benefit to be allocated in the priority categories is the benefit in effect on the plan termination date. This should be valued as a level annuity (no assumed increases after the plan termination date).

Page 249: Note that, in the solution to part “a” of question 102, in order to properly allocate the assets, it is necessary to determine the present value of all benefits in category 4 (both guaranteed and non-guaranteed). As it turns out, there are enough assets to cover all category 4 benefits, so allocation between guaranteed and non-guaranteed benefits is not necessary.

Page 251: In the solution to part “b” of question 102, there are now insufficient assets to cover all of the category 4 benefits. That is why, in this solution, the allocation in category 4 is made first to the guaranteed benefits. This was unnecessary in part “a” since there were enough assets to cover all of category 4.

Page 276: In the third to last bullet point, the number of participants must be squared before multiplying by \$5.

Page 288: The following additional information is pertinent to ERISA section 4010 for years beginning after 2007:

Beginning in 2008, the actuarial information to be submitted under ERISA section 4010 includes the funding target determined as if the plan had been at-risk for at least 5 years, and the funding target attainment percentage (FTAP).

For years beginning after 2007, the 4010 filing requirement is avoided if the FTAP as of the end of the prior year is at least 80%. It is unlikely that this would be tested on the 2008 exam since there are currently no regulations to deal with this.

Page 295: The reference to the funding shortfall in the middle of the page under part b) is correct, in that it matches the Internal Revenue Code. However, clearly what is meant here is the funding shortfall, not the funding target. There is currently nothing in the technical corrections bill that addresses this issue. As a result, it is not expected that this would be tested.

Page 300: The second to last sentence in the bullet point concerning the SAR should be changed as follows: "If Form 5500 is on extension, then there is a 2 month extension for the SAR, after the extended Form 5500 due date."